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Economic Intelligence Report

RECENT TRENDS  
IN ECONOMIC COORDINATION  
IN THE SOVIET BLOC



CIA/RR ER 60-30

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CENTRAL INTELLIGENCE AGENCY

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FOREWORD

This report is intended to place the program of economic cooperation among the countries of the Soviet Bloc in a broad perspective and to update the analysis of the activities of the Council for Mutual Economic Assistance (CEMA)

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RECENT TRENDS IN ECONOMIC COORDINATION IN THE SOVIET BLOC\*

Summary and Conclusions

Since mid-1959 the program of promoting greater coordination of the economies of the European Satellites\*\* has taken on considerable momentum, largely under the sponsorship of the USSR and the Council for Mutual Economic Assistance (CEMA). This program is intended to strengthen the economies and the political stability and interdependence of the Satellites within the Soviet Bloc and indirectly to contribute to Soviet economic programs at home and in the underdeveloped countries of the Free World. During the next 5 years the CEMA program will still be in its early stages of development, but by 1965 the ground may have been prepared for a significant increase in the degree of economic integration of the CEMA area.

The extent of integration will continue to be restricted by the general policy of broad industrial development in all the Satellites combined with the institutional system of separate national planning, which still has basic shortcomings. These factors tend to limit the intra-Bloc mobility of capital, labor, and commodities; to preclude the most efficient location of industry, irrespective of national boundaries; and to obstruct seriously the evolution of far-reaching inter-Satellite specialization of industry and agriculture. A concomitant problem is the lack of criteria of specialization and of a basis for making comparisons of cost structures of the various countries.

Although the Soviet leaders have intimated a theoretical interest in a single plan for the Bloc, it is not likely, at least in the foreseeable future, that they will deem it desirable to promote real supranational planning. Such planning ultimately would eliminate national compartmentation within the Bloc and thus would subject the Soviet people increasingly to outside political, cultural, and economic influences. Furthermore, supranational planning under Soviet direction would strongly offend nationalist sentiment in the Satellites. Moscow, moreover, although pressing for increasing economic integration of the

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\* The estimates and conclusions in this report represent the best judgment of this Office as of 1 September 1960.

\*\* Unless otherwise indicated, the term Satellites as used in this report refers to the European Satellites, and the term Bloc refers to the Soviet Bloc.

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Satellites, apparently does not intend to make the USSR a full participant in specialization arrangements to the extent that it would become broadly dependent on Satellite sources of supply.

The CEMA program, therefore, has been and will continue to be focused mainly on the problem of insuring the continued development of the industrial base of the Satellites for the plan period of 1961-65 and beyond. CEMA has undertaken to test for realism and consistency the projected output and distribution of many important commodities -- especially fuels, metals, machinery and equipment, and chemicals -- in the Satellite plans and, in effect, to draw up a partial balance of materials. This extended process, ostensibly in its final stage in mid-1960, has not involved a full intermeshing of the national plans. The multilateral and bilateral discussions and ensuing recommendations apparently related primarily to problems of increasing the output and improving the exchange and use of the basic products mentioned above.

Some recommendations for specialization were announced during 1959 and early 1960 relating to these products and also to agriculture, transportation, and communications. Presumably these proposals are broadly reflected in the long-term plans, and their detailed implications will be incorporated in subsequent multilateral and bilateral agreements. In the absence of reliable measures of comparative costs or of supranational planning, efforts at specialization are being directed primarily to problems that can be remedied on the basis of technological criteria. The major potential advantages from this type of specialization are the improved use of existing production capacity and economies of scale (particularly in production of machinery) and the facilitation of technological advance. Although some gains have already been realized, much additional work is required to create the necessary technical and organizational basis for undertaking even this limited form of specialization on a major scale. Eventually, however, these efforts should bring substantial dividends, if only by correcting some of the obvious shortcomings in the present structure of production.

A partial measure of the extent of increasing integration in the Bloc is the trend in the rate of growth of intra-Bloc trade, both in absolute terms and in comparison with the growth of industrial production. The advance indication of planned intra-Bloc trade for 1961-65 does not suggest a rising rate of economic integration, for intra-Bloc trade is planned to increase more slowly than in past years and also more slowly than industrial production. This picture, however, probably will be modified, perhaps substantially, by upward revisions of the annual trade protocols.

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In any event, trade, along with other forms of economic cooperation, should become a more positive factor in the economy of the Bloc as a whole and of individual countries by contributing to a more efficient use of resources. Inter-Satellite exchanges probably will be smoother and less uncertain than in the past, and the Satellite economies will be bolstered by the growing role of the USSR -- at least until 1965 -- as a supplier of raw materials and fuels. Important amounts of industrial products, especially petrochemicals and certain types of machinery and equipment, will be sent to the USSR in return.

Integration trends in Western Europe may affect Satellite trade prospects there adversely, but Satellite trade with underdeveloped countries of the Free World probably will increase considerably because of the growing complementarity of the two areas. The coordinating role of CEMA in Bloc trade with underdeveloped countries seems to be developing rapidly.

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# I. Nature and Limitations of the Program of Economic Integration

Since early 1958 the Council for Mutual Economic Assistance (CEMA) has appreciably stepped up its efforts to promote greater economic cooperation among the European Satellites. In the long run this campaign, which is primarily under Soviet leadership, is intended to bring about a considerable increase in the degree of integration of the economies of the USSR and the Satellites. In general, the CEMA program bears on two interrelated problems -- how to coordinate the long-term economic plans of the CEMA countries and how to establish an effective system of industrial and agricultural specialization that would facilitate greater economic efficiency. Successes in these areas would help to strengthen the economies and the political stability and interdependence of the Satellites within the Bloc. Indirectly, they also would contribute to Soviet economic programs at home and in the underdeveloped countries outside the Bloc. At present, the efforts of CEMA are focused mainly on the problem of insuring the continued development of the industrial base of the Satellites during 1961-65 and beyond by effecting a more careful balancing of resources and requirements under the sponsorship of the CEMA standing commissions for the various economic sectors.\*

The CEMA program should be analyzed with reference to the general environment of economic institutions and policies in which it is operating. This perspective is basic to an evaluation of sweeping claims [ ] about the prospects for economic integration and also to an understanding of what the CEMA program can reasonably be expected to accomplish.

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A basic weakness of the CEMA program of coordination is that it is superimposed on a system of separate national economic plans that are often unsound. These plans at times have been highly unrealistic in establishing general goals and generally have been inaccurate in working out details. Although the recent tendency toward improvement in economic planning probably will continue, the realism of the various national plans cannot be taken for granted. Plans for production and investment will not always be fulfilled, and consequently there may be considerable differences between actual and planned requirements of each country for commodities. These shortcomings will limit the success of CEMA in its efforts to bring about greater consistency between production and requirements in the Satellite area as a whole.

\* For the organization of CEMA, see the accompanying chart, following p. 6. [ ]

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Where economic planning involves several countries, the problems are even greater than in strictly national planning, for foreign deliveries and purchases are usually considered to be even more uncertain than domestic ones. There is consequently a reluctance to increase dependence on imports from another country (even within the Bloc), particularly under a system of trade lacking effective multilateral settlement of accounts.\*

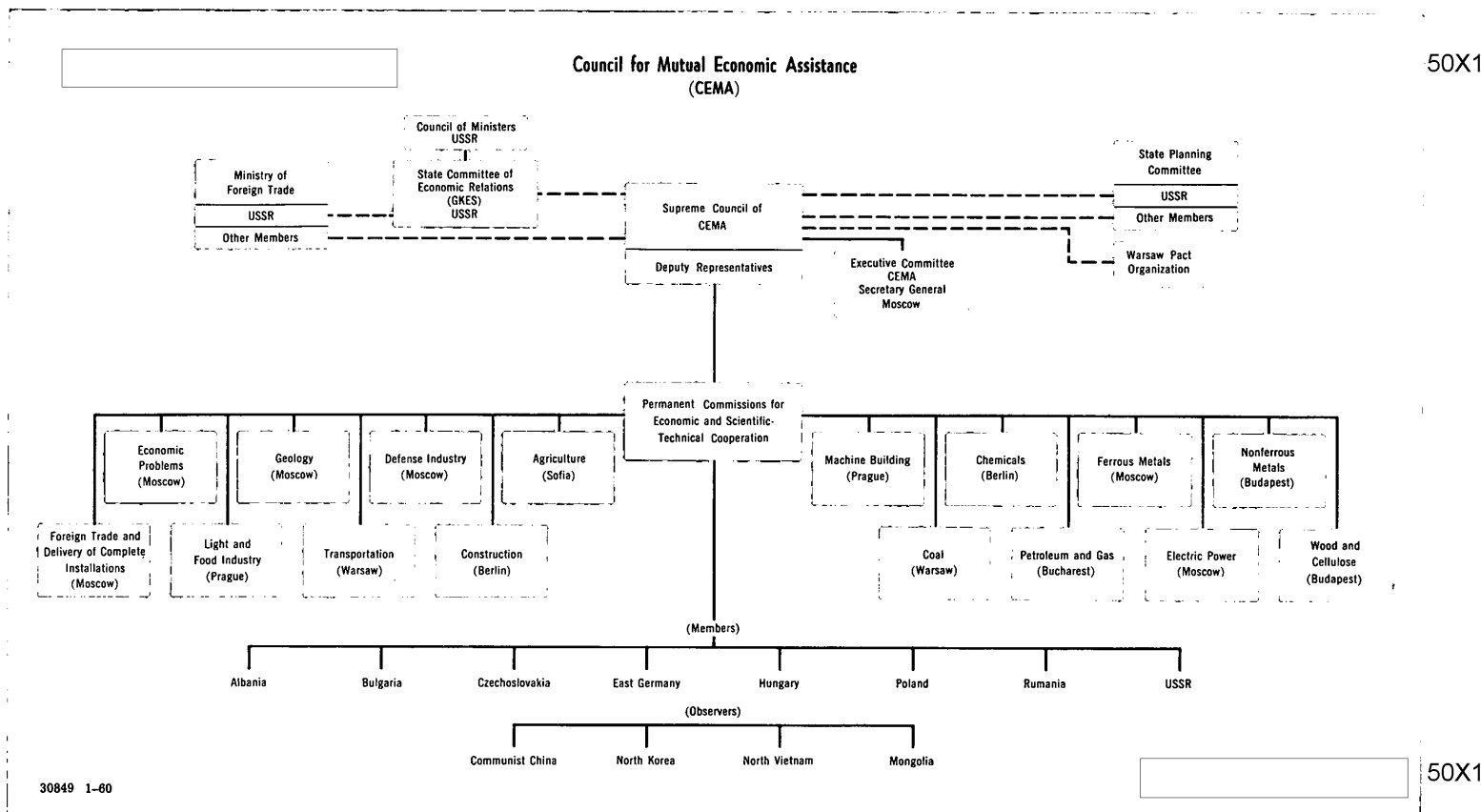
The USSR, however, does not now seem to be seeking to integrate the entire Bloc within the framework of one master economic plan (an ostensible purpose of CEMA when it was created in 1949). This fact has been stressed recently in economic journals of the Bloc <sup>3/</sup> and in statements of the leaders. After the 12th Plenum of CEMA in December 1959 the head of the Polish delegation declared that the adoption of the then proposed CEMA statute would "end ... the presumptions ... about the allegedly supranational character of this organization" (and, by implication, the charge that CEMA is an instrument of Soviet policy). The Statute of CEMA, as published in Moscow in April 1960, contains no reference to a single plan as an ultimate objective of CEMA. The main goal is defined as "assisting, by means of uniting and coordinating the efforts of the member countries, the planned development of the national economies ... ." <sup>4/</sup>

The public image of CEMA as an international organization open even to membership of other European countries may be merely an expression of the Soviet policy of East-West detente in early 1960. It is not likely, however, that the Soviet leaders, at least in the foreseeable future, will deem it feasible to move counter to nationalist sentiment in the individual Satellites to the extent implied by the introduction of supranational planning. Khrushchev did express the view in March 1959 (echoed in the following May by Kallai, a leading Hungarian Communist) that the "internal political borders between countries of the Communist world system will gradually disappear," but he added that this would occur only after the "worldwide victory of Communism."

Such a move to supranational planning, inevitably leading to the virtual dissolution of national compartmentation in the Bloc, not only could render the USSR more vulnerable to the charge of imperialism

\* A limited multilateral clearing system was agreed to at the 8th Plenum of CEMA in mid-1957, but there is little evidence that even this restricted system actually has been put into operation. In a recent article in a Soviet economic journal on the subject of intra-Bloc trade accounting, there is very little discussion of multilateral clearing and no reference to implementation of the 1957 agreement. <sup>2/</sup>

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but also could produce a situation of relatively free movement and contacts. Thus the Soviet people would be subjected increasingly to outside political, cultural, and economic influences. Aside from the political factors, Moscow, although pressing for increasing economic integration of the Satellites, does not intend to make the USSR a full participant in specialization arrangements to the extent that it would become broadly dependent on non-Soviet sources of supply.

There are intimations that at least the theory of developing a supranational plan has not been abandoned in Bloc circles. 5/ A prominent Soviet economist wrote early in 1959 that CEMA is "not as yet" a supranational organization aiming to work out a single plan. 6/ In the context of this writer's discussion of the problems of integration, however, the statement appeared to be more a recognition of limitation than a prediction of development in the near future.

Continuation of the system of national economic planning also complicates efforts to increase inter-Satellite specialization of production. A Bloc-wide planning agency with adequate authority could allocate production and investments among countries in the same way as among different regions in one country. Without such an authority, however, specialization is likely to be limited to obvious cases or to those that can be determined primarily with technological criteria. Considerable specialization is implicit in the individual country plans (for there are many commodities in which no Satellite can or wishes to be self-sufficient) and in the adjustments in these plans that may occur in the coordination process. Technical studies can discover additional opportunities for specialization that would increase the use of existing productive capacity through larger foreign trade and that would reduce costs of production through economies of scale or exchanges of technical information. To achieve a broader and more refined specialization under conditions of national planning, however, would require much better economic criteria than now exist in Bloc countries. What is needed to permit calculations of comparative costs is a price system reflecting at least roughly the relative scarcities of products and productive factors in each country. The actual price-cost system in Bloc countries, however, is almost wholly inadequate for this purpose -- chiefly because it takes no account of returns to factors of production other than labor (that is, capital and national resources) -- and it is not expected to change fundamentally in the foreseeable future. In individual Bloc countries, prices and costs have been used primarily for purposes of accounting and control and as auxiliary instruments of planning. Except occasionally within narrow areas, prices and costs are not the principal basis for the determination of production and its distribution, and to make them so would lead to highly irrational decisions. Similarly these prices and costs, even if they were made

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completely comparable methodologically, would not become the primary criteria of intra-Bloc specialization of production. The CEMA Commission on Economic Problems has undertaken studies, still in an early stage, 7/ of intra-Bloc cost comparisons, and eventually a Bloc-wide price system may be developed. The type of price system envisaged by Bloc planners and economists, however, still would not reflect the relative scarcities of goods and services within the Bloc. Although such a price system probably would facilitate, to a moderate extent, specialization agreements among individually planned economies, its principal function would be as an instrument of control under supra-national planning, if such planning is introduced ultimately. The lack of a rational price system, however, would handicap the efficient allocation of resources within the Bloc as it now handicaps allocation among the economic regions of the USSR.

Prices based on a cost system of the Soviet type, moreover, could not be effectively used in intra-Bloc trade. At present, prices in intra-Bloc trade are based essentially on world market prices, applied generally with a timelag of a year. These prices are of course subject to negotiation, for there are usually many "world market prices" to choose from, and each country tries to get the best terms possible. Substantial modifications of world market prices have been advocated, in particular by the less developed Satellites, which, like some of their counterparts in the Free World, naturally are seeking higher prices for their exports, or equivalent subsidies. It is possible that prices used in intra-Bloc trade will come to differ substantially from world market prices, but a fundamental change to a system of prices based on costs within the Bloc is unlikely as long as national planning predominates.

Without undertaking fundamental reforms of prices, costs, or economic institutions, CEMA has been able to make some real progress in standardizing statistical concepts and classifications among its members. For example, a uniform nomenclature of foreign trade is to be introduced in 1960, consisting of 9 divisions, 57 groups, and 280 subgroups of commodities, and provision has been made for a uniform method of annual reporting and evaluation of each country's trade.\* 9/ Standardization of nomenclature, specifications, and types of aggregates and parts, which is essential to specialization (especially of machinery and equipment), also is going forward. 10/

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The possibilities for economic integration among the Satellites also are reduced by economic policies that emphasize broad and rapid industrial development in all the countries. Although one of the principal goals of the CEMA program is to avoid the extreme form of autarkic development that characterized the Stalinist period, it seems to be an accepted principle of "balanced planning" that industrialization must involve not only an increase in the total volume of production but also a broadening of both the basic and the manufacturing industries. For example, each country of any size is expected to develop its deposits of raw materials and to undertake the main types of manufacturing (that is, machine building, textiles, and so on). This principle has considerable justification in the long run, when relative costs will have changed, but usually leads to inefficient production in the short run. Moreover, constant pressures caused by attempts to achieve very rapid rates of economic growth severely restrict the capability of the Satellite economies to prepare for large-scale specialization. Requirements for certain commodities have a tendency to grow faster than the amounts of these commodities that can be supplied by the most efficient producing countries. The Satellites could not rely exclusively on Czechoslovakia and Poland, for example, to satisfy their growing requirements for steel, because there are not enough specialized skills, facilities, and time for these countries to raise production of steel beyond a certain point. Finally, specialization may continue to be limited, although probably less so than in the past, by particular national policies that seek to promote the development of various types of production for prestige reasons, to prevent unemployment of labor or equipment in relatively inefficient industries, or simply to avoid excessive dependence on other countries.

The same economic policies that limit product specialization among the Satellites also restrict the mobility of capital and labor among them. The drive for rapid economic growth inevitably brings about a universal pressure on investment resources. The USSR has made commitments of raw materials and credits to underwrite a portion of the long-term development of the Satellites, and a few intra-Bloc projects have been highly publicized. Some of these projects, especially the petroleum pipeline, have great long-term significance. The aggregate of all these arrangements, however, is probably considerably smaller than it would be under a system of integrated planning or a free market system.

Labor mobility, another characteristic of economic integration, also is lacking in the Bloc, apart from a few marginal exceptions. In contrast, temporary labor migration of about 500,000 workers (including seasonal but not frontier workers) was reported in 1957 in Western Europe, where it is not organized or planned. 11/

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The numerous difficulties and limitations facing the CEMA program, however, should not obscure the opportunities in the next few years for substantial gains from coordination and, to a lesser extent, from specialization. Even within the present planning framework and existing economic policies, considerable progress can be made in improving the coordination of national plans and in taking advantage of obvious types of specialization. Even the working out of a rough inter-Satellite balance between supplies and requirements for the major materials would be a substantial improvement in comparison with the situation of severe dislocations that occurred in the early and middle 1950's as a result of unrealistic planning and inadequate attention to foreign trade possibilities. Similarly, gains can be expected from avoiding the extreme autarkic policies of the Stalinist period and from eliminating some of the worst inefficiencies of small-scale production where such inefficiencies are attributable to the small size of the domestic market.

## II. Coordination of Economic Plans and Specialization of Production

During the past several years, CEMA (primarily at the level of its industrial commissions) has been intensifying its efforts to promote among the Satellites a fairly extensive and realistic coordination of their plans for 1961-65 and their more general plan targets for 1975. The coordination of the plans for 1961-65 was ostensibly in its final stage by mid-1960 when, for example, the "final draft" of the Polish plan was presented to the Polish Council of Ministers. 12/ It can be expected, however, that the long-term plans will be modified subsequently and even from year to year during their implementation.

Bloc planners have conceded that the previous attempt at coordination of the 1956-60 plans was unsuccessful and that the process "amounted to a mere recapitulation of the plans of the individual countries devised in isolation and ... insufficiently considered." 13/ At the 8th Plenum of CEMA in Warsaw in mid-1957 a decision was made to begin drawing up plans for coordination of the long-term development of basic industries, especially fuels and power, metallurgy, machine building, and chemicals. This effort was to involve the elaboration and revision, in a number of stages, of detailed proposals presented and discussed at meetings of the CEMA commissions. The Commission on Economic Problems in 1958 was directed to make over-all economic analyses of the present and prospective development of each of the member countries and of the Bloc as a whole. This commission came to have a central role in coordinating the long-term plans, particularly as these plans involved foreign trade and specialization of production.

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A central question in such efforts is the general approach to co-ordination. Planning in individual Bloc countries is done on several levels of economic administration, from the planning commission to the enterprise. The planning commission establishes the main outlines of the plan and has the authority to modify the detailed plans originating at lower levels according to its own views of economic feasibilities. In the CEMA system, however, individual countries apparently have set up their own plans first, with their own assumptions as to foreign trade possibilities, and have made modifications afterward on the basis of information obtained and agreements arrived at in the CEMA commissions. Preliminary information on possibilities of trade with the major Bloc partners was needed at a very early stage of planning. The requirements of the USSR may have received special treatment by being presented before the first drafts of the plans were completed. [redacted] the drafting of the foreign trade portion of the East German long-term plans began with a presentation of the requirements of Soviet industries by the Soviet representative to the East German foreign trade organizations, which then ascertained what amounts could be delivered during the period. Such coordinated planning discussions, [redacted] occurred for the first time in 1959. 14/

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Some Satellite economists believe that the general method of co-ordination in the CEMA system does not go far enough. In the view of Kaigl, a leading Czechoslovak economist, as expressed in December 1957, "it would be entirely incorrect and ineffective ... for each country to devise its own prospective plan in isolation, even if on the basis of the materials compiled by the Council's permanent commission, and only then coordinate it with the plans of the other countries." He went on to propose a more dynamic approach to multilateral planning than is involved in the "static" materials balance method, in which each industrial commission takes a "narrow, branch" view of the supply and requirements picture envisaged in the proposed plans. One of the important purposes of plan coordination, according to Kaigl, is to improve the allocation of resources in the long run by such considerations as "the effectiveness of the planned investments and the resources actually existing to make them." 15/

Kaigl, however, conceded that it would be very difficult to change the present approach to coordination and that this approach commands considerable support. Information on the numerous meetings of the CEMA commissions and on the subsequent plenary sessions does not indicate that the process of coordinating the 1961-65 plans has been radically altered. The communiqué following the 12th Plenum of CEMA in December 1959 in Sofia stated generally that the session "discussed reports presented by the standing commissions and endorsed proposals on matters of economic relations ... following from the long-term plans of economic

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development for the period ending in 1965." 16/ This language is very similar to that of the new Statute of CEMA, which lists as one of CEMA's functions "the preparation of recommendations regarding the most important problems of economic relations resulting from the plans of national economic development of the CEMA members, with the objective of coordination of these plans." 17/ The implication of these statements and of supplementary remarks by Polish, Czechoslovak, and other leaders is that the recommendations do not imply comprehensive intermeshing of the plans for the individual economies or major industrial sectors. 18/

During 1959, some aspects of the draft plans apparently were considered on a piecemeal basis at commission meetings. These discussions and ensuing recommendations probably focused largely on problems of increasing the output and improving the exchange and use of basic industrial fuels and materials and some types of machinery and equipment. Probably the assumptions underlying the initial draft plans of the Satellites for 1961-65 were considerably more mutually consistent and realistic than those for earlier periods. Moreover, the CEMA commissions seem to have contributed significantly to improving the initial draft plans for 1961-65 by facilitating the multilateral exchange of information and the balancing of planned supplies with requirements. In essence, the role of CEMA here is to determine deficits in individual Satellites and in the area as a whole; to find ways of filling these deficits from inside the area through modifications of country plans (for example, through the use of substitute materials) and through specialization; and to determine the remaining deficits, if any, and the extent to which they could be covered in the West or in the USSR.

CEMA has carried out this role with regard to various industrial sectors, such as chemicals, metallurgy, and machinery. Poland, for example, in bilateral negotiations within the Bloc through 1958 reportedly managed to cover only one-third of its needs for phosphorous materials to 1965. Thus it was decided at the 10th Plenum of CEMA to take a number of steps to attempt to meet such deficits for Poland and other CEMA countries.

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Intensified specialization was advocated in early 1959 as one means for covering the shortage of chemical equipment, but it was held that specialization could be applied to only 15 to 20 percent of the tonnage of chemical equipment, particularly during a period of great shortage. 20/ Subsequently, it was stated that the 12th Plenum of CEMA in December 1959 worked out recommendations for specialization of the "most important groups and types of chemical equipment, the production volume of which for the 7 years constitutes about one-half of the total volume of production of equipment subject to specialization." 21/ The amount "subject to specialization" was not mentioned but possibly corresponds to the figure of 15 to 20 percent mentioned above. This specialization will lead to an increase of approximately 45 percent in the trade of such equipment in the CEMA area.

A sector that is of major importance in long-term balancing -- an area in which CEMA may ultimately be notably useful -- is the projecting of construction of new plants. CEMA reportedly decided at its 9th Plenum in mid-1958 that all new construction of rolling-mill facilities as well as the specialization of existing rolling-mill trains is to be coordinated by CEMA. 22/ The 10th Plenum in December 1958 discussed the report of the Ferrous Metallurgy Commission concerning "the specialization and coordination of production of some types of rolled steel and tubes, especially with regard to the building and start of operations of new rolling-mill trains." It added that the decisions made by CEMA "provide for some practical measures for the continued specialization and coordination of production." 23/

The increase of specialization, however, will be slow and gradual. Demand for products will continue to mount rapidly, and information on the draft long-term plans seems to indicate that the primary emphasis

\* Tonnages are given in metric tons throughout this report.

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is on raising output wherever possible, with little indication of narrowing the range of products in individual countries. There have been publicized some examples of specialization at the plant level, the aggregate importance of which will become much greater in the next few years. For example, the East German metallurgical enterprise at Magdeburg allegedly has agreed on specialization in production of rolling mill equipment, which will enable it, through a limitation of its product assortment, to save 6 million DME\* of investment funds. The statement added that specialization permits a limitation of the product assortment, enabling a saving of 20 percent of research development costs in production of rolling mill equipment in East Germany. 24/ Possibly in later years (that is, after 1965) the metallurgical industry in most of the Bloc countries will have become sufficiently advanced to facilitate considerably greater specialization.

At present, CEMA, while encouraging limited specialization, is mainly stressing a general increase in output, particularly of potentially deficit items. At the 12th Plenum in December 1959, for example, it was reported that arrangements had been made for an additional increase in the output of rolled products, including pipes, of more than 3 million tons by 1965. The CEMA Commission for Ferrous Metallurgy reportedly told the 10th Plenum in December 1958 that the deficit of rolled products in 1965 would be 2.6 million tons. 25/ It is not clear whether the planned additional increase of 3 million tons announced at the 12th Plenum would eliminate this deficit or whether additional requirements had developed in the meantime.

Production of machinery and equipment generally offers the best prospect for "division of labor" within the Bloc. The primary potential advantages of specialization in this sector may be classified into two general, interrelated groups -- economies of scale and facilitation of technological advance.

Bloc economists have emphasized in recent years that costs can be reduced significantly by introducing a larger volume of production of a smaller assortment of products. This aim could be accomplished only by increased intra-Bloc specialization, mainly because the relatively small domestic markets of these countries (except the USSR) do not provide a basis for mass production of certain goods.\*\*

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\* Deutsche Mark East (East German marks). DME values in this report are expressed in current marks and may be converted to dollars at the rate of exchange of 4.2 DME to US \$1.

\*\* "Mass production" does not necessarily mean a high volume of output. For example, reportedly the cost of production of cranes in the USSR was reduced by 75 percent when the annual output reached 500 to 1,000 pieces. 26/

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A broad start toward specialization seemingly was made at the 7th Plenum in 1956, when agreement was reached on specialization for about 600 machinery and equipment products.\* Between 1956 and the end of 1959 the CEMA Commission for Machine Building issued recommendations for more than 1,100 products. 28/ By 1959 the commission was concentrating largely on problems of specialization, which accounted for 75 percent of its planned tasks in 1959 compared with 32 percent in 1958 and 17 percent in 1957. 29/ At the outset the commission had devoted most of its efforts to problems relating to coordination of research and development and to standardization, an essential basis for subsequent specialization of production. Coordination of technological development, however, is a continuing problem. Accomplishment to date in this field may have been greater than in specialization of production.

There is little evidence of extensive accomplishment thus far in product specialization. Some claims have been made of elimination of duplication -- for instance, in the manufacture of "the most important types" of chemical equipment. There has been a reduction in the number of countries making the same types of equipment, even though 141 types are now made after specialization compared with 114 before specialization. In late 1959, however, it was admitted that the recommendations for machinery specialization had been implemented "rather sluggishly," that the CEMA countries had reported "divergence" (probably noncompliance) on 16 percent of the recommendations bearing on the 600 types of machinery, and that there were also unreported "divergencies." 30/ Furthermore, the specialists had prepared the recommendations under the limitation of inadequate knowledge of the production structure of the countries and with reference only to the short-term period up to 1960.

There may be a considerable long-range potential in machinery specialization and other specialization in the Satellites, but no aggregative measurement of this potential is now possible. Even on the assumption of a willingness and a firm intention on the part of the Satellite planners to promote specialization, it is clear that the creation of the necessary technical and organizational basis involves the overcoming of very difficult problems. In the machinery and equipment sector, for example, much additional work is required in

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the standardization of measures and of types of aggregates and parts.\* Beyond this problem, the development of the machine building industries must be closely coordinated with that of the metallurgical and other basic industries -- a most intricate matter in view of the large number, the differentiation, and the complexity of types of machinery. Intra-Bloc specialization in this area is considered to be a process that is to be worked out in stages and that involves several levels of specialization. 32/

Some agreements on future specialization were announced during 1959 and early 1960 (and probably others later in 1960) relating to engineering, metallurgy, agriculture, transportation, and other sectors.\*\* Presumably the agreements are geared into the long-term plans in general terms. In April 1960 the Polish Vice Minister of Foreign Trade, in discussing Poland's long-term trade plans with other Bloc countries, cited these agreements as evidence of coordination of the economic plans and declared that decisions concerning specialization of production are reflected in certain quotas in the trade agreements. He also stressed the fact that the trade agreements are signed initially by the respective planning commissions as evidence of the interconnection of the trade agreements and economic plans. 33/

The specific implementation of the agreements on specialization may not be reflected in the long-term plans but will be taken into account in subsequent annual plans. Such specialization seems to relate largely to investment that would affect production in the long run but probably little in the short run. Reportedly prevailing has been the view presented at the 10th Plenum of CEMA in December 1958 that specialization should be based in practice on the coordination of output programs regarding new products. 34/ Coordination of investment planning, however, does not seem to have progressed very far as yet. In late June 1960, Gomulka declared that "the effectiveness of investments in certain production sections can be greater with broad development and tightening of mutual cooperation between socialist countries." He added, however, that "the broad cooperation in economics which exists today in fact covers only foreign trade and

\* The meeting of the 13th Plenum of CEMA in late July 1960 stressed the importance of improving the quality of machinery and equipment. This subject had been intensively discussed in Polish circles and probably elsewhere after the 12th Plenum, with particular emphasis on the "low quality" of the machinery produced in the socialist camp. 31/ The 14th Plenum reportedly is to be held in the fourth quarter of 1960.

\*\* At the 13th Plenum of CEMA, recommendations were adopted for specialization in production of equipment for the power industry, of equipment for refining crude oil, of building materials, of industrial bearings, and of other items. No producers were recommended.

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to a certain extent technique [but] is almost nonexistent in such an important sector as investments ... . One of the most important tasks broadening the mutual cooperation ... is to coordinate ... industrial investments."\* 36/

### III. Statistical Evidence of Economic Integration as Reflected in the Long-Term Trade Plans

Although there is little direct statistical evidence of the extent of increasing economic integration in the Sino-Soviet Bloc, a very important measure of such an increase is the trend in the rate of growth of industrial production compared with that of foreign trade, especially intra-Bloc trade. During 1950-58, net industrial production is estimated to have increased 112 percent (or 9.8 percent annually) in the USSR and 97 percent (or 8.8 percent annually) in the Satellites. During this period, intra-Bloc trade increased 130 percent (or 11 percent annually) and inter-Satellite trade 85 percent (or 8.0 percent annually). The increase was greater in the early years, when there was a sharp reorientation of the trade of Eastern Europe away from the West, and the average figure for the 8 years thus gives some upward distortion with reference to the later years of the period. According to preliminary official statements about the period 1959-65, the planned increase in gross industrial production in the USSR is about 80 percent (or 8.8 percent annually), about the same as in the major Satellites, as shown in the table.\*\*

It is impossible, on the basis of available data, to obtain an accurate picture of the long-term plans for trade in 1959-65 between the Satellites and the USSR and among the Satellites. These data are incomplete and sometimes appear to be conflicting. Virtually all of the data, however, indicate a smaller growth of both intra-Bloc and inter-Satellite trade during 1959-65 than during 1950-57. Intra-Bloc trade, according to the communiqué issued after the 11th Plenum of CEMA in May 1959, is expected to rise by 70 percent between 1958 and 1965 (or about 8 percent annually).\*\*\* According to the plans of the major Satellites, their trade with the Sino-Soviet Bloc will increase by an average of 70 to 75 percent in 1959-65 and their trade

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\* After the 13th Plenum of CEMA in late July 1960 in Budapest the head of the Polish delegation stated that his group insisted "above all on the necessity of enlarging investment coordination." 35/

\*\* The table follows on p. 18.

\*\*\* The figure of 70 percent was repeated at the 12th Plenum of CEMA in December 1959.

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Table

Growth of Foreign Trade and Gross Industrial Production in the European Satellites  
1959 Actual and Plans for 1959, 1960, and 1961-65

Country	1959 Plan		1959 Actual		1960 Plan		Average Annual Percent of Increase 1961-65 Plan <sup>a/</sup>	
	Foreign Trade	Industrial Production	Foreign Trade	Industrial Production	Foreign Trade	Industrial Production	Foreign Trade	Industrial Production
Albania	11	17	12	20	N.A.	11	N.A.	N.A.
Bulgaria	56	28	42	25	14	15	N.A.	15 to 19
Czechoslovakia	17	9	16	11	10	10	11	8
East Germany	11	11	16	12	10	9	8	8
Hungary	14	5	18	11	10	8	6	8
Poland	8	8	12	9	5	8	8	9
Rumania	N.A.	9	7	11	24	14	12	13

a. These figures are rough approximations, derived in some instances from plan totals given for 6-year to 8-year periods that include 1961-65. The 1961-65 trade agreements are not yet final. After a meeting of the CEMA Foreign Trade Commission in early June 1960, it was stated that "the Commission examined the progress of talks between member countries of CEMA on the question of concluding long-term agreements ... noted with satisfaction that ... a broad program ... has been agreed on ... [and] adopted recommendations to complete this work in the immediate future." 37/

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with the USSR somewhat faster than this rate.\* This information would suggest that preliminary plans for inter-Satellite trade call for a growth somewhat smaller than 70 to 75 percent.

The advance indication of planned increases in intra-Bloc foreign trade, therefore, does not suggest rapidly mounting economic integration. This picture, however, is modified by several considerations. The trade plans for the major Satellites, especially Poland, appear to be notably cautious, based on minimal expectations of prospects for exports. If the situation develops more favorably, these plans will be revised upward. In late June 1960, for example, the Polish Politburo announced that the raised goals for industrial development in 1961-65 necessitate an increase in exports by 59 percent in 1965 above the level of 1960 -- almost 10 percent annually, compared with the earlier planned increase of only 45 percent, or less than 8 percent annually.

In general, the annual trade protocols tend to exceed the amount originally planned, and it can be expected that the trend of such increases, already appearing in 1960, will be extended in the following years. An East German official has said, for example, that the total for the annual East German - Polish trade agreements during 1961-65 is expected to be 20 percent higher than the total for the 5-year pact. 39/ In May 1960 a Polish spokesman stated that this bilateral trade in 1960 will be 6 percent higher than in the original agreement. 40/ In March 1960 the chairman of the Polish State Planning Commission said that Poland's long-term agreements with other CEMA countries "envisage considerable increases ... compared with the levels originally fixed for the 1961-65 plan ... a result of intensified production specialization and cooperation ... . New levels established by these agreements will be incorporated into the final draft of the 5-year plan." 41/ The CEMA Foreign Trade Commission, in commenting in early June 1960 on the bilateral talks for 1960, stated that the protocols "envisage a further ... considerable increase."

\* In the Soviet plan directives for 1959-65, reference was made to an increase in trade with the Satellites of only 50 percent, but this figure is inconsistent with subsequent trade plans for individual Satellites. [redacted] more than a doubling in the trade of Czechoslovakia, Poland, and Hungary with the USSR during this period, and [redacted] an 80-percent increase for Czechoslovakia. After taking the relatively small planned growth of East German - Soviet trade into account, the average increase for these countries amounts to 80 to 90 percent for the period. 38/

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Although the growth of intra-Bloc trade relative to production in the area during the next few years may be the principal indicator of the effectiveness of the CEMA program, it will not be the sole indicator.\* In the first place, some forms of economic cooperation, including not only trade but mutual aid in plant construction, production planning, and technology (such as are called for in the East German - Hungarian accord for 1961-65 43/) will affect trade only after a substantial timelag. Moreover, larger gains from even a given volume of foreign trade should result from measures increasing the coordination between the flow of foreign trade and domestic production. The rapid increase in East German foreign trade during the past few years has considerably improved economic efficiency in that country. In 1958-59, supplies of imported materials were sufficient to eliminate finally abnormal fluctuation in manufacturing output. Gains in efficiency from further increases in foreign trade will continue to be significant during the next few years but later probably will decline as labor and capital assets become more fully employed. In the case of Hungary, it was asserted in late 1959 that the long-term investment plans for the CEMA countries already had been coordinated to such an extent that for the first time it had become possible in the preliminary agreements to insure the shipment to Hungary of most of its requirements for machinery and equipment through 1965. 44/

Larger gains also may result from the changing pattern of certain bilateral trade relationships and from changes in the commodity composition of trade. For example, the agreement between Czechoslovakia and East Germany, announced in June 1960, provides for an increase by 1965 of 122 percent above the level of 1960, an impressive increase in exchange between the two most developed industrial economies. Polish-Czechoslovak trade was virtually stagnant from 1950 to 1958. The trade agreement for 1960, however, provides for an increase above the level of 1959 of 17 percent (subsequently raised to about 19 percent), and the pact for 1961-65 indicates a growth of 78 percent for 1960-65. The projected exchange of machinery products (the type of

\* Simunek, in a speech to the Czechoslovak (Communist) Party Conference on 6 July 1960 on the 5-year plan, said that "the increase in the turnover of goods with socialist states alone cannot express by far [emphasis supplied] the important changes and improvements which were effected in the methods of international economic collaboration between socialist states in the past years." Then he stressed the importance of long-term plan coordination, creating "the prerequisites ... for our Third Five Year Plan to rest on a firm basis both with respect to insurance of important deliveries of raw materials, machines, and equipment and with respect to insurance of markets for Czechoslovak products." 42/

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product that is perhaps most indicative of an increasingly integrated relationship) will involve a minimum increase of Polish exports of machinery to Czechoslovakia of 160 percent in 1965 above the level of 1958. In 1965 this category will comprise 31 percent of Polish exports to Czechoslovakia compared with 20 percent in 1958. Polish imports of machinery from this partner, starting from a higher base in 1958, will increase in 1965 by 14 percent. 45/

The CEMA countries also will increase considerably their mutual trade in metallurgical products. Poland, for example, reportedly plans to increase its exports of rolled products by more than 40 percent by 1965, with the entire increase going to Bloc countries. 46/ (In late 1958 the Polish Deputy Minister of Heavy Industry stated, in discussing the plan for 1965, that the output of rolled products will increase from 3.7 million tons in 1958 to 5.6 million tons in 1965 -- recently revised to 6.4 million tons in 1965 -- and that the export of such products is expected to increase to 500,000 tons annually. 47/) Czechoslovakia has indicated an output goal of 8.2 million tons of rolled steel, including tubes, by 1965, and plans to export 750,000 tons of rolled products in 1960 compared with 524,000 tons in 1959. 48/ The Czechoslovak export target for 1965 has not been disclosed.

Aggregate information available on the long-term trade plans for four of the Satellites indicates that the trade of each Satellite with other countries of the Sino-Soviet Bloc will account for an increasingly large share of the total trade of each country, as shown in the following tabulation:

<u>Country</u>	<u>Percent of Total Trade Turnover*</u>	
	<u>1958</u>	<u>1965</u>
Czechoslovakia	71	75
East Germany	74	76
Poland	58	66
Hungary	68	75

The position of the USSR will become even more important than now, primarily as a supplier of raw materials and fuels. The position of the USSR has been disclosed in terms of over-all percentages only by Czechoslovakia, 40 percent of the total trade of which is planned to be with the USSR by 1965 compared with 33 percent in 1958.

\* Including Yugoslavia.

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The share of other countries of the Sino-Soviet Bloc in Czechoslovak trade is planned to decline slightly (from 38 to 35 percent), while that of Free World countries is to drop from 29 to 25 percent. The volume of Czechoslovak-Soviet trade is scheduled to be 84 percent higher in 1965 than in 1958. The key position of the USSR as a supplier is illustrated by its announced commitment to deliver, among other things, 38 million tons of iron ore and 22 million tons of crude oil. 49/ Similarly, large commitments have been made to other Satellites.

In return, the major Satellites will deliver to the USSR important amounts of industrial products, especially machinery and equipment, exports of which are expected to be two to three times greater in 1965 than in 1958. The importance of such imports to the Soviet economy by 1965 cannot be determined precisely. Products from the projected petrochemical industries in the Satellites may contribute significantly to Soviet needs. The USSR, at least until 1965, may continue some dependence on certain types of complex and special products relatively more expensive to produce in the USSR or temporarily in short supply, such as equipment for transportation, for rolling mills, for the supply of diesel and steam power, for production of chemicals, for processing food, and for production of construction materials. It is not clear, however, whether or not the USSR would continue this policy in the more distant future. The USSR probably by then could become largely self-sufficient in most categories of machinery and equipment. A continuance of such an import policy would become increasingly a function of the objective of promoting Satellite economic growth and stability.

Another generally incalculable long-term factor is the effect of integration trends in Western Europe on the trade prospects of the USSR and the Satellites in that region. A shift in trade patterns here probably would relate mainly to manufactured goods and would thus affect the Satellites (especially East Germany and Czechoslovakia) more than the USSR, which exports to Western Europe chiefly raw materials, fuels, and semifinished articles. Such trade has not been of vital significance to the USSR. If, however, Western European integration should adversely affect the Satellites, as Polish and perhaps other Satellite officials seem to fear, 50/ this development might force the USSR to provide greater assistance to the Satellites in the long run.

In their trade with the Free World, however, the Satellites (as well as the USSR) seem to be planning to increase their trade with the underdeveloped countries at a higher rate than before and also at a faster rate than their trade with the developed countries. Satellite trade with such countries is favored by an increasing

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complementarity of the economies of the two areas. The underdeveloped states generally indicate a willingness to accept Satellite machinery products, which in some cases are difficult to market elsewhere in the Free World, and the output of such products probably can be expanded at relatively little cost.

In return the underdeveloped countries, which supply significant amounts of agricultural products to the Satellites, may become increasingly important suppliers of iron ore and other metallurgical raw materials, especially after 1965. In early 1960, Soviet leaders reportedly informed Satellite chiefs that the USSR after 1965 might not be able to maintain its high share of total Satellite imports of iron ore and most other industrial materials and food grains, especially because of high transportation costs and increasing Soviet needs. 51/ [REDACTED]

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[REDACTED] In such an event the extent of success of the Satellite effort to develop alternate sources in the underdeveloped countries would assume considerable importance. In the shorter run the Satellite trade plans seem to indicate gradually increasing imports of such materials from those countries. The role of CEMA in coordinating Satellite trade contacts in the underdeveloped countries appears to be developing significantly. In the long run, such trade may be one of the most fruitful areas of Satellite collaboration.\*

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